



# Break Away Growth

## Economic Strategy Unveiled

Imagine living in a state with the fastest growing economy in the Midwest:

- This state would have a proliferation of home-grown businesses, many of them market leaders in the United States and abroad.
- It would be a magnet for high growth clusters of industries, e.g., biomedical and business software companies.
- The educational system would prepare young

people for high skill jobs and help retrain adults for better and better opportunities.

- It would be world renowned for its livable, vital communities.

In short, the state just described could well be Indiana as it celebrates its bicentennial in 2016.

*Break Away Growth* details how Indiana can break away from competitor states by focusing on quality economic growth and

performing government functions exceptionally well. The aim of the plan is to be the best location in the Midwest for businesses and families.

To reach its goal, Indiana must: bring wages back in line with the U.S. average; break away from over-reliance on traditional industries; and embrace innovation and high performance in order to be globally competitive.

*Continued on page 4.*

## Why Should We Change Now?

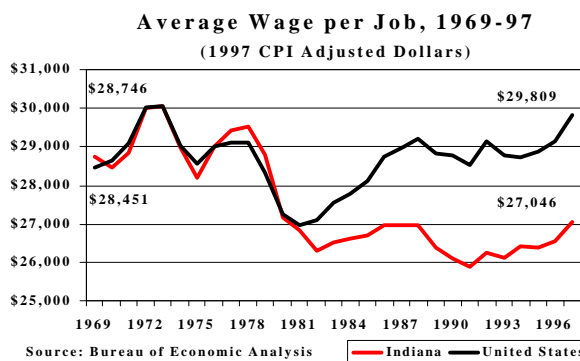
Indiana has fully participated in the Midwest's manufacturing renaissance. New plants have come to the state. Employment is at an all-time high. Exports continue to break records and outpace the U.S. rate of growth. Investment from overseas firms has increased. Why, then, should the state change its strategies?

While Indiana's cost of living and cost of doing business are well below most states, the average

wage per job is below the national average as shown in the chart below. Wages

that were once at the

*Continued on page 4*



Since 1981, Indiana wages have lagged those of the nation.

### Inside this issue:

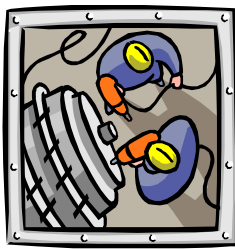
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### Reasons to make a change:

- Indiana needs strategies that enable it to get ahead.
- Global competition requires innovation.
- The industrial base needs enhancement if incomes and job growth are to break away from competitor states.
- High pay jobs reward knowledge and skills.
- Indiana's economic development and regulatory systems must become highly flexible.

# Workforce Skills a Priority

In the highly competitive global economy, businesses compete on price, value and responsiveness. One option is for firms to focus on offering the lowest price by utilizing a low skill, low cost workforce and “dumbing down” operations. A second option is to command a premium price but offer the highest overall value. Finally, one could choose a hybrid option which combines price competitiveness and higher value. Both the second and third options require skilled workers



High pay jobs do not necessarily require formal four-year college degrees. High pay jobs do, however, require high skills.

and investments in technology.

The second and third courses of action, while more demanding, are the paths *Break Away Growth* advocates. High value-added, innovative products strengthen companies' financial performance, increase job security for skilled workers and improve workers' wages and incomes.

Consequently, education and training of the workforce has become the No. 1 competitive issue in economic development. Indicators of skill levels of current and

future workforce present a mixed picture.

Currently, only 16.8 percent of Indiana's jobs require a bachelor's degree or higher, compared with 20.7 percent of all U.S. jobs. Many of Indiana's good paying jobs require training other than a four-year degree, e.g., apprenticeship programs, vocational certificates and short course college “packages.” It is important to recognize, however, that an increasing number of jobs will require post-secondary training of some sort.

One of the most important steps the state could take to prepare for the future is to ensure that Indiana can respond quickly as industries' needs change. That effort would require high response, on-the-job training adequate to address the skills of

# Improve Mainstay Industries

Strong mainstay industries — manufacturing, agriculture, insurance, trade and distribution, and higher education — and a strong business climate remain critical to continued economic sustainability.

Indiana's industrial base has undergone a resurgence since the recessions of the '80s. Today, Indiana's unemployment rate is an unimaginable low: 3.1 percent as of January 1999. Manufacturing wages have been steady, remaining between 10 and 12 percent above the U.S. average. Likewise, as demonstrated by the chart, manufacturing productivity outpaces the nation.

Hoosier exports are strong, bucking the national trend. During the first nine months of 1998, Hoosier exports exceeded the prior year by 2.9 percent, while the U.S. level declined 1.1 percent. Long-term results are equally impressive. Since 1988, exports have grown an average of 19.6 percent, compared to the national average of 13.4 percent.

Residents should have every reason to believe that Indiana can become the best

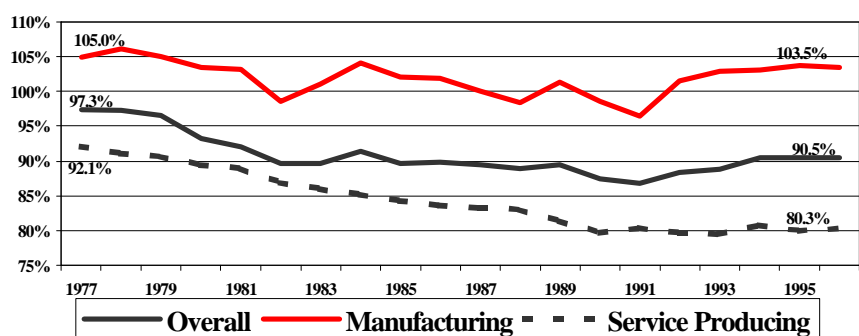
location in the Midwest for businesses and families. Companies are drawn to states with lower costs. Indiana is in a strong position, with its combination of low business costs (17<sup>th</sup> best in the nation) and low cost of living (14<sup>th</sup> best).

Mainstay industries currently face a number of competitive issues. The degree to which Indiana handles these challenges

will determine its success in capitalizing on its great location and low costs.

- Indiana's industrial mix makes it vulnerable to business cycles. A high concentration of manufacturing companies have resulted in family living wages for a great number of Hoosiers. Almost one-third of the Gross State Product depends on that sector (50

**Productivity by Major Sectors**  
(GSP per Worker, Indiana as a Percent of the U.S., 1977-96)



Source: Bureau of Economic Analysis

## Growth Companies will Supplement Traditional Industry Base

On average, growth companies pay better, employ more highly skilled workers, export greater amounts, spend more on research and development, and provide better worker benefits and job satisfaction. These companies are the engines of Quality Economic Growth.

Generally, a firm is considered a high growth company if its sales and earnings grow at a rate of 15 percent per year, or better. The firms come in all sizes and cross all industries. What they share is a focus on innovative, cutting edge products and services.

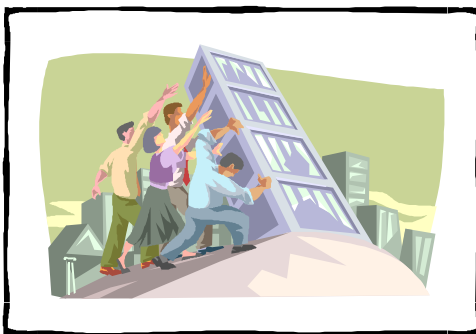
Indiana already has several concentrations of high growth, high pay companies, e.g., Elkhart, Warsaw and Indianapolis. The state's future vitality and wage and income growth, however, depend on having many more of these clusters.

Diversifying Indiana's industrial base to include high growth niches is a logical step. Promising industries include biotechnology, healthcare, information technology, advanced business services, environmental technology and services, advanced logistics, and education and training. They are also logical extensions of Indiana's existing economic base.

At the same time, high growth, high pay companies are forming within mainstay industries, e.g., companies that develop

software for manufacturers.

Our college and university research capabilities and the state's ability to produce skilled workers will impact efforts to have growth companies locate and ex-



In order to meet its goal of outpacing U.S. growth in wages and incomes, Indiana needs to increase its proportion of high growth companies.

pand in Indiana. Likewise, "smarter" government efforts to encourage networking among firms and regional high technology strategies can encourage business development. Equally important are efforts to improve Indiana's quality of life and retain highly skilled residents.

*Break Away Growth* proposes the following initiatives to accelerate the development of high growth, high pay firms:

- Provide incentives to local equity investment pools that form to assist small start-up ventures.

- Shift the state's economic development budget over a five-year period to create a balance between incentives provided to mainstream companies and those given to frontier industries and high growth, high pay firms.
- Broaden the eligibility for personal property tax abatements and sales tax exemptions to include research and development and computer and high technology equipment.
- Focus state economic development programs and activities around self-selecting industry alliances, e.g., the Strategic Development Fund.
- Create the "Innovations Development Contingency Fund" as part of the state budget. The fund would

**Proportionately, managerial and professional jobs are in short supply in Indiana, and their median wages are lower. Only 23 percent of Hoosier jobs are in this category – the U.S. average is 29 percent.**

## Take Advantage of Our Crossroads Location

Indiana has an enviable geographic location. It is the Crossroads of America, the center of the world's most powerful industrial nation. The state has a powerful asset when one also factors in Indiana's advanced transportation system of railroads, highways, ports and airports, and its strong telecommunications sys-

tem.

Indiana can position itself as a global gateway by investing in superior transportation and logistics systems. Those investments include:

**Indiana is one of the top 25 inland places to locate a business.**

**– Business Facilities  
February 1998**

- Make the highway bonding program permanent.

- Create a "State Infrastructure Bank" to offer a revolving loan fund and loan guarantees to communities.
- Establish an alliance between business and government to strengthen the state's transportation and logistics services industry.
- Provide a special fund for high profile marketing initiatives that promote In-

## Economic Strategy (cont.)

*Continued from page 1.*

There are three main strategies in the plan:

1. Improve the performance of mainstay industries.
2. Accelerate the contribution of frontier industries and high growth, high pay companies.
3. Follow policies that create a climate for growth.

**Quality Economic Growth is less about counting jobs and more about creating a higher standard of living and higher quality of life for a greater number of people.**

State government can best support the strategies by focusing on the climate for growth. Specifically, the plan recommends government make focused state investments in workforce skills, growth companies, infrastructure and advanced logistics, “smarter” government, and livable places.

## Why Should We Change Now? (cont.)

*Continued from page 1.*

national average have grown 0.8 percent since 1981. During the same time span, national wages increased 10.5 percent.

Currently, 54 percent of Indiana jobs are in occupations that have a median wage below \$10 per hour, or \$20,000 per year. A recent analysis by the Indiana Economic Development Council, however, found that a family needs \$17,000 to \$32,000 per year to meet its basic needs (the amount varies based on family size and competition).

Employment growth data is convincing: Indiana’s eco-

nomic development strategies have served us well for creating jobs. Now, the state must enhance those strategies to move ahead in improving its standard of living.

Global competition will continue to put pressure on prices. Manufacturing and agriculture production around the world has increased meaning that more of what Indiana produces can be also made elsewhere. As a result, Hoosier companies must specialize in high value-added products and services that command a premium in the marketplace.

Mainstay industries — manufacturing, agriculture, insurance, trade and distribution, and higher education — will continue to be a cornerstone of Indiana’s economy. Over-reliance on these industries, however, makes us more vulnerable to recessions. By expanding cutting edge growth companies in traditional and frontier industries, Indiana can increase incomes and opportunities for job advancement.

**This is not the time for the old adage, “If it ain’t broke, don’t fix it.” Our economy is stable and jobs are plentiful. This is the very time to fix the challenges of wage growth, advancement jobs and high skill, high pay jobs.**

Higher pay jobs reward skill and innovation. Many production and service jobs do not necessarily require a four-year college degree.

They do, however, require increased levels of skill in technology, problem solving, teamwork and communication.

The state’s economic development system must be geared up to meet demands for flexibility and responsiveness. The pace of the 21<sup>st</sup> Century will be even faster than that of today. State programs need the tools and customer-service focus necessary to respond quickly and in a coordinated fashion.

## A Vision for Superior Performance

Indiana aspires to be the best place in the Midwest to...

B earn,  
B work,  
B play,  
B learn,  
B raise a family,  
B enjoy the environment and  
B build community.

And, to be globally renown for its...

B free enterprise,  
B smart government,  
B quality education and  
B livable and healthy places.

## Goals that Raise the Bar

By 2016, Quality Economic Growth will be achieved if Indiana meets six goals:

**Goal 1:** Raise per capita income and average annual wages above the U.S. average.

**Goal 2:** Attain the best purchasing power of any state in the nation.

**Goal 3:** Secure the lowest poverty rate in the Midwest.

**Goal 4:** Bring productivity above the U.S. average and rank as the best in the Midwest.

**Goal 5:** Earn the highest livable places rating in the Midwest.

**Goal 6:** Create the highest rate of growth in the number of high skill, high pay jobs in the Midwest.

## Guidelines for Policy and State Investments

Philosophically, Indiana residents are conservative. They prefer to limit the size of government, even if that means a trade-off in fewer services. Hoosiers expect a moderate tax load and low government debt. Residents respect those who pull themselves up by the bootstraps. Consequently, Hoosiers expect communities to take initiative to solve local needs, and they protect the right to free enterprise.

Keeping with the Hoosier spirit, *Break Away Growth* articulates five primary functions of government. If nothing else, local and state officials have a responsibility to do these things well:

1. Provide a sound, fair and competitive tax and regulatory climate.
2. Produce efficient and excellent basic infrastructure and public services.
3. Foster trust and collective purpose by governing and planning in an open and fair manner.
4. Compete with other states and countries by creating attractive environ-

ments in which businesses and residents thrive.

5. Intervene for strategic purposes and for limited periods of time to improve and correct market weaknesses and to advance market solutions.

A healthy fiscal climate is a pre-condition for business confidence in the state.

Thus, maintaining sensible budget reserves and continuing to buy-down state pension liabilities (Indiana's only fiscal vulnerability) make for sound economic strategy.

In keeping with the state's commitment to avoid long-term liabilities, *Break Away Growth* assumes that state funding for traditional economic development — programs that provide direct one-on-one subsidies and technical assistance — will not grow.

Sound fiscal discipline demands that public funds shift from the old grant-in-aid approach to self-help initiatives. This plan, therefore, reduces emphasis on grants to spur economic development. Instead, the emphasis is on loans, loan guarantees and loan loss reserve pools.

While government should not directly create jobs or invest in firms, it can, and should, create a climate for Quality Economic Growth. It can make strategic investments that:

- Prepare the workforce with skills demanded by industry.
- Accelerate the development of growth companies.
- Capitalize on Indiana's prime cross-roads location.
- Streamline government functions.
- Improve the quality of life.

**Regardless of short-term economic contractions, Indiana must continue to focus on the long-term: innovation-led, high performance growth.**

## Government can Lead the Charge to Innovate

Indiana is in an excellent position to pursue "smarter" government. It already follows the tenets of limited government, a moderate tax rate, low debt and local initiative.

"Smarter" government will require three innovations:

1. Find ways to perform exceptionally well.
2. Implement performance-based designs for public services that have high standards of accountability.
3. Find solutions that minimize or eliminate the role of public bureaucracies.

This effort to maximize both the efficiency and effectiveness of government

functions calls for fundamental changes. In particular, greater flexibility and a greater range of options are needed to solve problems.

For example, more of what the federal government funded in the past has shifted to local areas. Consequently, communities must cope with addressing more demands with fewer resources.

Likewise, to be truly effective in economic development, communities must look at issues



States prosper when government functions well and local leaders and regional alliances work in tandem.

such as transportation, infrastructure, worker skills, the environment and a host

of items from a regional perspective. Sub-state solutions are required to achieve economies of scale, efficient financing and coordinated solutions to issues that cut across boundaries. Yet, coping with multi-jurisdictional issues can be challenging.

*Break Away Growth* proposes several initiatives to increase local flexibility and improve the state's customer service and coordination functions.

- Increase the number of options for, and flexibility of, raising local government revenue. Steps include raising caps on local tax options, exploring new options and increasing the property tax rate limit.
- Restructure local property tax limits to avoid penalizing growth communities.

# Livable, Healthy Communities Essential to Promote Growth

Increasingly, families and employers will pay premiums to live in places that are safe, clean and in harmony with nature. People will seek out communities that enhance the natural landscape, prevent pollution and are designed with convenience in mind.

The well-being of residents relate directly to factors related to environmental conditions and healthy lifestyles. Indiana communities rank high on many quality of life factors, but fall behind their peers in attaining environ-



In the 21<sup>st</sup> Century, skilled workers will demand good places to live and work. Indiana has an opportunity to create sustainable economic development that balances today's needs with tomorrow's.

mental and health standards.

This plan focuses on policies that address the concept of sustainable economic development: maintaining or improving

Indiana's standard of living, agricultural yields and industrial productivity without compromising the support systems that make those results possible.

- Further the work of the Farmland Preservation Task Force re-

lated to urban development and non-metropolitan growth.

- Expand tax increment financing to a variety of applications.
- Create an aggressive brownfield development incentive package.
- Create the "Sustainable Economic Development Corporation," a state-level private or public-private entity to invest in and provide technical assistance related to sustainable development.
- Provide for performance-based pollution prevention tax credits.
- Coordinate a statewide Geographic

## Government Innovation (cont.)

*Continued from page 5.*

units of government or the services offered by local governments.

- Provide state matching funds to support sub-state and multi-jurisdictional growth and development planning.

- Facilitate the simplification of regional boards and commissions in order to encourage regional strategies and requests for state funds.
- Establish a coordinated, automated one-stop permit process.

- Provide line-item funding for the State Information Center and launch a Web-based pilot program to transfer information.
- Coordinate and consolidate all state development finance functions under the Indiana Development Finance

## Mainstay Industries (cont.)

*Continued from page 2.*

are included). Most of Indiana's manufacturing companies are in highly cyclical industries: autos, steel, industrial machinery and fabricated metals. Fluctuations in national and global demand for durable goods rapidly impact the state's economy, as they did in the recessions of 1980 and 1982.

- Our companies face significant technological changes. For example, Congress has issued new mandates to improve fuel efficiency by 2004 and 2011. Indiana's auto-related companies will need to innovate to meet the requirements. While daunting, the change could present opportunities for

new high growth clusters within the automotive sector.

- The bulk of U.S. economic gains are coming from advances in technology, productivity and worker skills and knowledge.
- Successful firms find niches that combine cost competitiveness, innovation and a "total solution" that addresses customer needs before, during and after the sale.

*Break Away Growth* proposes several

strategic investments to improve the performance of mainstay industries:

- Increase worker productivity by maximizing educational opportunities, improving utilization of education and training services, increasing information about the performance of all post-secondary programs, and improving access to, and affordability of, educational and training programs.
- Strengthen Indiana's already outstanding distribution system.
- Improve the state's information system

**"America's once rusty manufacturing heartland has restructured, retooled and reinvented itself as the country's economic powerhouse."**

**– The Economist  
April 1997**



*This update is the fourth in Indiana's series of strategic plans for economic development prepared since 1982. The Indiana Economic Development Council, Inc. is a public-private partnership that brings business, government, labor and education to the table to reach consensus and develop commitment to creating a long-term strategic advantage for the state.*

*Indiana was the first state to create an independent strategic planning entity for economic development. The planning process, refined over 10 years, ensures consistency, continuity and credibility over time. In effect, the process stretches political lead times into economic lead times.*

## Workforce Skills (cont.)

*Continued from page 2.*

There is concern that as job tasks become more technically complex and require more problem solving and people skills, Indiana workers may not yet have the full set of matching skills. A recent Indiana Economic Development Council study estimates that for every 100 high skill job openings, only 65 job applicants had the mix of skills required. While 76 percent of the jobs do not require a formal post-secondary degree, they do require continual training, much of it on the job.

Formal education rates are lower than the national average. Currently, Indiana's public high school graduation rate is 70.1 percent — 30<sup>th</sup> in the nation. Only 17.7 per-



During 1996, Indiana ranked third in the nation in terms of the number of new business development projects. That same year, Indiana landed seven high-tech facilities — the fourth-highest number in the United States. (*Area Development* magazine) Indiana's educational and research prowess could present an opportunity to continue this momentum.

cent of adults have completed a four-year degree or higher — 47<sup>th</sup> in the nation.

Conversely, Indiana is the 14<sup>th</sup> largest producer of college graduates in the nation. These graduates represent a steady supply of workers that possess the knowledge and technical expertise needed to attract and retain high growth, high skill companies.

In part, these statistics reflect the legacy of manufacturing. As mentioned earlier, fewer than 20 percent of jobs require a four-year degree. Therefore, *Break Away Growth* calls for a well-structured career track for the non-college bound and incumbent workers to ensure these Hoosiers have skills that meet industry's needs.

Specific steps Indiana should take include:

- Provide consumers with timely infor-

mation on the performance of all elementary, secondary and post-secondary programs.

- Create a "Lifetime Opportunity Debit/Credit Card" to ensure financing is convenient and affordable.
  - Launch the "Indiana Career Learning Account," a line of credit for post-secondary education to which employers, philanthropic organizations and state government could contribute.
  - Offer tax incentives to companies that train and educate their workers.
  - Develop performance-based training that is customized to employers' needs and enhance the state's Training 2000 program.
  - Reform Indiana's workforce development and training system to take advantage of opportunities opened up by federal restructuring.
- Changes in regulations open the way for improved customer service,

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## Four Core Challenges Must be Addressed

Achieving the goals and milestones set forth in *Break Away Growth* will not be without difficulty. Indiana faces four core challenges: improving incomes, wages and high skill, high pay jobs; creating sustainable growth; keeping the middle class from slipping into the category of “the working poor”; and shaping new patterns of development in urban and rural areas.

Over the past two decades, Indiana repositioned itself after back-to-back recessions. Since 1986, in fact, average job growth has been faster than the nation and the unemployment rate has been below that of the United States.

Mainstay industries are sensitive to national business cycles. Reaching a level of productivity and industrial diversity that reduces the impact of recessions is an important safeguard.

Indiana is a middle income, middle class state. A greater proportion of Indiana households are in that category than reflected by the nation as a whole, and

### Four Growth Challenges

- *Indiana must catch up in per capita income and real wages per worker.*
- *Growth must be sustainable and less susceptible to business cycles.*
- *The working poor must develop skills that provide upward mobility.*
- *Communities must deal with the impact of migration to non-metropolitan areas.*

fewer people live in poverty. In large part, the phenomenon is explained by a greater number of households with two parents and multiple job holders, more overtime work and good paying manufacturing jobs.

The challenge is to ensure that current and future workers have skills to ensure continued family wages. For 73 percent of Indiana jobs, skill requirements can be gained through on-the-job training. That number will remain virtually unchanged in the foreseeable future. Consequently, increasing skills through work-based training, short courses and distance learning will be an essential means of stability and upward mobility for many Hoosiers well into the next century.

The fastest growth areas in the state are in small- to mid-size cities and towns, and in counties on the fringe of metropolitan areas and along interstate highways. Among the negative consequences of the migration are loss of farmland, decline in the core of cities, and increased demands on schools, municipal services and water, sewer and drainage infrastructure.